Written Testimony
before the

House Government Reform Subcommittee on Government Management, Finance, and Accountability
Representative Platts, Chair

Introduction

Representative Platts and members of the Subcommittee: On behalf of CGI Federal, I thank you for the opportunity to share our insights concerning the Financial Management Line of Business (FMLoB) initiative. CGI is privileged to be working with OMB, federal agencies, and other members of industry in developing practical approaches to achieving FMLoB success. I have submitted my written testimony for the record and will summarize the testimony in brief remarks here.

The Subcommittee has asked our firm to address the current state of federal financial management; the practical, logistical, and audit implications for agencies considering moving forward with the FMLoB/Center of Excellence (COE) concept; and the role of the private sector in this transformation.

CGI is vitally interested in these issues because they are central to our business. We have spent 30 years implementing financial management systems in more than 500 of the largest, most complex organizations in the public and private sectors. This includes more than 20 years experience building, implementing, and maintaining COTS federal financial management systems in all three branches of the federal government. We also have 34 years experience in delivering IT managed services to commercial and government customers.

In response to the FMLoB, we have established a fully functional CGI Center of Excellence that delivers these same capabilities to agencies as a shared service. We are currently migrating the General Services Administration and the Corporation for National and Community Service into our COE. We are also partnered with GSA and the National Business Center at the Department of the Interior to deliver COE services to their customers. We are invested in initiatives that improve the management of the federal government, especially ones like the FMLoB that align with our core capabilities.

Based on this experience, we have four central observations on these hearings.

- **First, we support the Line of Business and Center of Excellence concept.** Although not without its challenges, the FMLoB and COEs hold promise to enable the next stage of evolution and improvement in financial management. We feel a new financial management business model is not only desired, but is absolutely necessary, for the federal government to address critical issues with the current and future state of federal financial management. The FMLoB and COEs, if structured appropriately, can serve as a vehicle that enables flexible modernization across federal departments and agencies to improve financial management at reduced risk and cost.
- **Second, the success of the LoB initiative ultimately depends upon leadership and execution at the agency level.** Throughout years of multiple waves of government reform, including the current LoB initiative, federal managers have been given tools and technologies to help them manage their business more effectively. Though thoughtfully conceived, many past initiatives have not produced their full intended results. Managers have not always used the tools effectively, and performance hasn't shown consistent improvement. The key lesson is that success will be determined by the quality of the fundamentals of managing transformational change: top leadership commitment, dedicated resources, disciplined execution, effective communication and change management, and clear accountability for results. So far, we've seen impressive evidence of commitment, leadership and policy development from the Administration. Real results from this reform effort will be evident at the agency level where the rubber meets the road.
- **Third, the private sector has an important role in delivering on the promise of these concepts.** Private sector firms in the IT and business process service industry focus their investments into developing and maintaining the expert people, standard processes, and proven technology to execute specific back office functions such as financial management. Your back office is our front office. The government can leverage the private sector to deliver its back office—efficiently and under accountable service level agreements—so that federal agencies can focus on their core mission objectives.
- **Fourth, we seek to actively participate in resolving challenges that exist to realize the promise of the FMLoB and COEs.** We acknowledge that making an evolutionary change in federal financial management operations is not easy. The federal financial management community needs to further clarify the roadmap to achieve FMLoB success, both in terms of an FMLoB *policy* that establishes a level competitive playing field for financial management shared services, as well as an FMLoB *execution strategy* that enables agencies to realize true value from a COE. This value is not measured just in cost savings, but in how well the COE enables improved agency performance and accountability at reduced risk and cost.

  As active participants in the federal financial management community with a broad range of experience across multiple agencies and commercial customers, the private sector can play a valuable role in evaluating opportunities for improvement and offering innovative solutions.

We believe the government can benefit greatly by establishing a formal mechanism for incorporating industry as an active participant in FMLoB policy development, and would welcome the opportunity to establish such an industry advisory group.

Current State of Federal Financial Management

We support the FMLoB and COE concept because we view this initiative as enabling the next stage of evolution and improvement in financial management.

In the 1980s, it was groundbreaking for federal agencies to capture financial data in a standardized financial system. In the 1990s, the federal government and industry jointly established financial system standards and certification tests. In the 2000s, most departments and agencies successfully modernized to certified financial systems and configured these systems to achieve unqualified audit opinions. Most recently, a handful of departments, such as the Department of State, have tied financial and program information together for strategic decision-making, getting to Green on the Improved Financial Performance category of the President's Management Agenda.

This evolution of success deserves recognition, but there is still much to do. Agencies face mandates to improve their financial systems and processes, yet doing so requires process redesign and system implementations that pose risk and that can carry price tags that are difficult to fund. Even agencies who are leaders in financial management face continuous pressure to become more efficient at maintaining and enhancing their levels of excellence, so that they can focus more resources on strategic mission-related activities. In addition, pressing current events such as the Iraq war, homeland security, and the Katrina disaster require funding priority, and at the same time, put a premium on accountability and integrity for the use of federal funds to address these national crises. We have reached a point where financial resources and the federal government's capacity to manage them are severely strained.

Government financial management reforms have often responded to crises. For example, a series of highly visible financial failures and accountability lapses in the 1980s precipitated the CFO Act and FMFIA. The Enron and WorldCom scandals precipitated Sarbanes-Oxley and its application to the government through recent revisions to OMB Circular A-123. In each case, the goal of reform has been to mitigate vulnerabilities and improve financial performance.

The current challenge, then, is this: How can the federal government keep pace with its financial management needs when budget pressure from pressing national events dictates that the government simply cannot afford duplicate effort and expensive implementation failures?

For the government to sustain the high level of financial management it requires to maximize results from taxpayer dollars, its current financial management business model must change, even if that change is hard to do.

To address this challenge head on, we see two major tracks of work that must continue. The first is a policy track. The second is an execution track.

On the policy track, we applaud OMB for taking steps to provide increased transparency to give agencies more clarity on how to evaluate FMLoB service alternatives, and increased standardization to mitigate the cost and risk of agency financial system migrations. We feel that by establishing formal workstreams to address these issues, OMB and the Financial Systems Integration Office (FSIO) managed by GSA have a sound framework for developing a new viable federal financial management business model.

That is not to say that the work is done. To understand the challenges and help develop practical approaches to achieving FMLoB success, CGI hosted a series of forums among federal technology and financial executives and OMB during the past year. Attendance has been strong, with CFOs, CIOs, and OMB senior leadership participating. The last two of these forums benefited from the direct involvement of OMB Controller Linda Combs, and we thank her for bringing important insight and leadership to these discussions.

Federal CFOs and CIOs who participated in these forums communicated a concern that there is currently no clear vision of the FMLoB end game. What would the federal government look like if it were restructured around core missions and supporting lines of business? We agree with OMB's high level vision of an FMLoB that improves the cost, quality, and performance of financial management systems by leveraging shared service solutions and implementing other government-wide reforms. We suggest that OMB and FSIO extend this vision to provide a blueprint for what the end state would look like from an agency's perspective. Such a blueprint would help agencies visualize how they can apply FMLoB services within the context of supporting their mission. CGI has developed a potential vision for this end state and welcomes the opportunity to share and discuss it with Congress, OMB, and FSIO in the coming weeks.

In addition, there is an immediate need to establish a level competitive playing field for Centers of Excellence. As defined by OMB, a COE is a shared service solution where a single entity provides financial management services for multiple organizations. To date, OMB and FSIO discussions of establishing a sustainable competitive environment have focused on enabling agencies' ability to migrate from one service provider to another better performing alternative. (OMB is even considering having COEs pay for transition costs to another COE if the customer agency is dissatisfied and wants to leave. This is not a commercial practice; it certainly has legal implications; and it is antithetical to building positive, durable relationships. This topic requires more detailed discussion than can be summarized in this testimony. We can provide more input on this topic at the committee's request.) However, federal CFOs and CIOs who participated in CGI's Line of Business Forum series in 2005 emphasized that more basic issues in the FMLoB competitive environment exist that must be addressed.

For example, the sanctioned public FMLoB COEs are not operating under the same rules. Legal constraints prevent some of the public COEs from taking common business actions—such as setting aside financial reserves to refresh technology, engage in marketing, and otherwise improve their services. Other public COEs that operate under the franchise or revolving fund models can retain funds, giving them a competitive advantage in bidding on multi-year engagements and guaranteeing service levels.

Also, inherent inconsistencies exist in the competitive playing field between public COEs and private-sector run COEs. For example, agencies buying services from a private COE must compete the opportunity according to the terms of the Federal Acquisition Regulation. Agencies buying services from a public COE can enter directly into an interagency agreement. Public COEs cannot make binding multi-year commitments to their customers. Private COEs can make multi-year commitments, but often do so without long term funding commitment from the agency, which jeopardizes the provider's ability to offer long term cost efficiencies. Private COEs must account for all costs in a bid, to protect against liabilities that affect shareholders. (Yes, gone are the dot com days of spending what you don't have to undercut the competition. Stockholders don't stand for it. We can't do it.) It is unclear if public COEs fully account for all costs of a service—including reimbursement of appropriated overhead amounts such as Salary & Expenses—in a bid.

We applaud OMB for attempting to plug the holes in these models on a deal-by-deal basis. For example, OMB specified in a currently ongoing FMLoB procurement conducted by EPA that all offerors must account for all costs related to the service to EPA in their bids. But more work is needed to iron out inconsistencies to establish a truly level competitive playing field where agencies can make apples-to-apples comparisons.

The second track of work to enable a new evolutionary financial management business model is the execution track. On this track, we again applaud OMB for establishing formal workstreams to develop government-wide common business rules, data structures, and policies for financial functions. Again, that is not to say that the work is even close to done. Implications remain.

For example, federal CFOs and CIOs who participated in CGI's FMLoB Forum series identified process and data standardization as a key challenge. They cited increased standardization as critical to reducing the complexity and cost of integrating feeder systems with their financial system, and to compiling financial management information for program decision-making. These CFOs and CIOs cited difficult migrations to eTravel solutions as an example of the added cost and pain that arises if process, data and integration standards do not exist.

We don't want to get too caught up in drawn out standards creation processes. We've seen too many such efforts get bogged down in analysis paralysis or create standards that are too rigid to be truly useful. But working, sustainable financial management standardization can be done. In the 1990s, we and other industry representatives sat down with federal experts to develop the

JFMIP financial system certification process. That process has continuously evolved to effectively set a bar of capability that enables federal financial management compliance.

To address the key issues under these policy and execution tracks, we believe that a similar degree of formal collaboration between industry and federal experts is required. One potential mechanism would be to leverage the Industry Advisory Council's new Financial Management Committee, which one of CGI's thought leaders co-chairs, as an existing parallel organization of industry leaders to engage with FSIO to analyze specific policy and execution improvement tracks. Through such industry participation, we hope to help bridge our agency customer perspectives with the government-wide policy perspective to help make this next iteration of financial management evolution a success.

Agency Readiness for COEs

The issue of agency readiness for participation in COEs should be asked in two ways: How ready are agencies to use a COE as their financial management services arm? And how ready are agencies to serve as COEs themselves?

In terms of agency readiness for using COEs, the biggest implementation challenge to fully executing the COE model is managing the required change in mindset, culture, and customary operations.

Successful migration of an agency to a COE requires large scale change that effectively manages the transformation from the way the agency performs their operations today to the way they would perform the complete cycle of financial management in partnership with a COE. This change spans the full financial management life cycle across functions for capturing, maintaining, analyzing, and distributing financial management data. Change on this scale affects a wide spectrum of stakeholders, including program managers as well as the office of the CFO. Change on this scale requires proven, large-scale business and IT transformation skills and talents to prevent costly failures and rework.

Agency readiness is also affected by the way in which agency financial management projects are funded. For example, Congress could consider treating administrative funding differently than program funding to provide FMLoB migration funding that spans multiple fiscal years. The act of funding programs benefits from annual prioritization and oversight. Administrative operations could gain investment efficiencies if federal funding for such COE and other infrastructure activities more closely aligned with the multi-year funding model of an ongoing business concern. When funding FMLoB migrations, Congress can consider exploring new administrative funding models that allow for continuity of an FMLoB service across fiscal year boundaries.

Migrating to an FMLoB/COE model also requires a shift in mindset in how departments and agencies procure financial management software and services. Buying from a COE changes their acquisition approach from buying financial system software through precise definition of specifications and requirements, to buying a financial management service from centers governed by service level agreements. This involves a cultural change from a government-contractor relationship to a mutually beneficial working relationship. In this new relationship model, agencies will most effectively view COEs as extensions of their operation and enterprise architecture bound by an enforceable service level agreement.

As a result, agency readiness is also determined by how they define their success measures in the service level agreement. Measures that focus on outcomes related to improved financial performance and customer service are most beneficial. Measures that focus on IT-related outcomes, such as per second response time, although important, do not in and of themselves measure the agency's desired outcome. It is important to measure what matters to keep the service provider focused on the agency's most important outcomes, and to avoid excessive SLA management costs.

By managing a COE shared service as an extension of their architectures, departments and agencies mitigate the audit implications of migrating to a COE. Under such a model, the department or agency remains in control over the entire financial system operation by defining, authorizing, supervising, and controlling all areas of financial system operations. The COE advises, counsels and executes services at the direction and authorization of the federal customer. The department or agency retains ownership and accountability for system data, data integrity due to data entry, and business rule configurations that the department/agency authorized to govern separation of duties and other internal controls. Best practice COEs would include performance measures, and powerful incentives and disincentives, tied to whether an audit finding can be traced back to a specific service area that was within the sphere of control of the shared service provider, such as the SAS 70 audit or data integrity due to system malfunction.

Further, the CFO Council's Implementation Guide accounts for the necessary procedures to ensure proper internal controls and reduce audit exposure of using a shared service provider. OMB Circular A-123, Appendix A, Internal Control over Financial Reporting, specifically addresses Evaluating Control of Cross-Servicing Providers and Service Organizations. The implementation guide prescribes the procedures, tests and assurances that should be preformed for the required annual assurance statement. The guide covers both the entity's controls over the activities of the service organization, controls at the service organization, and the service auditor's report on controls placed in operation and tests of operating effectiveness (such as a Type II SAS 70 report). All of these policies establish sufficient guidance for internal controls. If the requisite procedures are coupled with a strong governance model, agencies using a COE can retain control and remain compliant with federal audit requirements.

In terms of agency readiness to be COEs themselves, the quality bar should be set high. To reap the benefits of improved financial information and performance at reduced risk and cost, we see five critical areas of core competency for COEs:

1. Business transformation on this scale is hard, and is the number one factor in determining the difference between success and failure. Successful COEs should possess large-scale business and IT transformation as a core competency. They should have developed, invested in, and performed that competency over many years and many successful client engagements. All organizations are not alike. One organization's success does not necessarily translate into success for another. Successful COEs combine experiences from successfully modernizing a diverse range of customers. This enables the COE to embrace agency diversity, and apply proven processes in the hands of experienced experts so that the COE can enable the necessary transformation to meet and overcome agency-specific challenges.
2. Qualified COEs will continuously make and leverage investments in people, processes, and technology to provide excellent and continuously improving services. In terms of people, its team should be experienced in routinely successful large scale system implementations and understand the requirements of large scale change management and business transformation. They should be experts at linking financial management with technology, enforcing strong internal controls through system configurations and automated business rules. And they should be experts in financial management data, so that they can configure daily operational data to integrate efficiently with external systems and roll up effectively for management reporting.
3. In terms of process, COEs should focus on proven standards and reuse. They should offer a set of standards for migration, interface configuration, operations, and ongoing support that each agency customer can leverage. These should be tested best practices that are continuously improved to leverage proven commercial standard technology. These practices can and should extend beyond IT and application hosting to include business process services, because agencies can realize efficiencies and process improvements through a turnkey service. COEs should also be experienced at commercial management best practices, such as enforceable service level agreements and strong governance models that deliver a high degree of agency satisfaction.
4. In terms of technology, COEs should possess management of state-of-the-art technology as a core competency. They should have invested in that competency over many years and many successful client engagements. They should have specific experience in applying technology successfully, multiple times across a diverse range of federal departments and agencies. They should not just have the ability and resources to invest in emerging state-of-the-art technologies, but should instead have assessment and adoption of proven technologies as a core purpose for their existence. This focus on and core competency in technology enables the COE to offer a clear path of continuous technology improvement that enables customer agencies to stay current with technology advances, and leverage an IT infrastructure supported by ongoing investment and upgrade.
5. Finally, successful COEs should also offer a framework for delivering standardized services in a manner that acknowledges inherent differences in how agencies do business, and that embraces agencies' variety by offering flexible service options and configurations. This includes offering multiple service options that allow the agency to configure their FMLoB

solution to achieve the right balance of capability and cost, with compliance as a minimum. This also includes offering configurable COTS software that does not require multiple layers of extensions to meet agency-specific federal requirements.

The end result is a COE that delivers a balance among flexibility, capability and cost efficiency, all leveraging a single set of process, data and technology standards. With Centers offering these attributes, the federal government can evolve the "build once—use many" approach to a more flexible new approach that leverages process and technology standards to deliver improved financial information and improved agency management results while achieving economies of scale.

Role of the Private Sector

The private sector can play a key role in the FMLoB initiative, both in shaping FMLoB vision and direction and in delivering shared services through Centers of Excellence. Our core business is the back office functions of large organizations like agencies, departments, and other commercial firms. Your back office is our front office.

As a result, our primary investment and mission is to develop and maintain the expert people, standard processes, and proven technology to execute back office functions like financial management. We also focus on reuse—reuse of best practices in migration, conversion, change management, and business transformation from across commercial and government modernization experiences. For example, CGI alone has spent 30 years implementing financial management systems in more than 500 of the largest, most complex organizations in the public and private sectors. The private sector brings a wide range of experiences and perspectives to each financial management engagement.

Specifically in the domain of federal financial management, we often find ourselves as the change agent, bridging organizational boundaries across our clients and policymakers to recommend and reuse proven financial management modernization approaches. The areas of cross-agency sharing that we facilitate range from proven approaches to managing large scale change across federal departments, to efficiently configuring financial systems to meet agency-specific needs and comply with federal mandates. We reuse and leverage our experiences, as well as our investments in IT infrastructure assets, to control costs and risks for federal agencies.

The private sector also has decades of experience with delivering shared services to both the public and private sectors: managing the requisite IT infrastructure, enterprise applications or back-office functions on a multiyear contractual arrangement with specified service levels according to industry standards. Such services enable organizations to focus on their core business and reduce the complexity of their operations by outsourcing their IT and back office environments. The organization gets defined service levels that align with its needs delivered by industry experts who are held accountable for results.

We concur with Linda Combs, as stated in her December 16, 2005 memo to federal CFOs, that shared services solutions and other government-wide reforms can foster efficiencies in federal financial operations. We also recognize that the way to enable this change and accelerate adoption is by demonstrating COE service value to the agencies and to Congress, in terms of better agency service, sustained improvement in financial management results, and cost efficiencies.

We recognize that implementing this model will take time and that the key challenge is demonstrating value and managing the complex cultural change. But we have seen it work in the commercial sector and we believe it holds great promise for the federal government, if committed leadership and disciplined, thoughtful execution are present.

Conclusion

The President's Management Agenda clearly emphasizes the idea that government should focus on its core competencies and leverage private sector strengths to provide services outside these core competencies. The FMLoB and the COE concept, if structured appropriately, can enable a sustained high level of financial management. COEs offer the opportunity for government to purchase services driven by outcomes to be achieved (such as better management information, strong internal controls, and accountability for taxpayer dollars), from service providers that can be held highly accountable for service quality. By purchasing services from a COE with broad experience in large-scale IT and business transformation and federal financial management, departments and agencies can reduce risk and focus their resources on their primary mission.

However, without the presence of leadership and execution fundamentals of managing transformational change at the agency level, the FMLoB will fall short of its promise.

We support OMB in its work and would like to offer more support by establishing a formal mechanism for industry participation in the ongoing FSIO workstreams. Through such participation, we hope to help bridge our agency customer perspectives with the government-wide policy perspective to help make this next iteration of financial management evolution a success.

In closing, I thank you for this opportunity. CGI holds the work of the Subcommittee and FMLoB initiative in the highest regard. We also remain committed to improved federal financial management and the accountability it brings to all our citizens.